Annual Report

Prince Edward Island Lending Authority

(1985-1986)

ANNUAL REPORT

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1985-1986)

Established by an Act of the Provincial Legislature in June, 1969, the Provincial Lending Authority provides capital and operating credit to the primary producers of the Province, particularly those of smaller size, which may reasonably be expected to prove successful but which are unable to obtain financing elsewhere on reasonable terms and conditions.

PRINCE EDWARD ISLAND LENDING AUTHORITY

Post Office Box 1420

Confederation Court Office Tower

134 Kent Street

Charlottetown, P.E.I.

C1A 7N1

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prince edward island
lending authority

A CROWN CORPORATION
EST. 1969

CONFEDERATION COURT OFFICE BUILDING
TEL: (902) 892-4247 – 134 KENT STREET – P.O. BOX 1420 – CHARLOTTETOWN, P.E.I., CANADA – C1A 7N1

LETTER OF TRANSMITTAL

July 9, 1986

The Honourable Gilbert R. Clements
Minister Responsible for the Lending Authority
Walter R. Shaw Building
P. O. Box 2000
Charlottetown, P. E. I.
C1A 7N8

Honourable Sir:

It is our pleasure to submit as required by the Prince Edward Island Lending Authority Act the Annual Report for the Lending Authority for the fiscal year ended March 31, 1986.

Respectivefully Submitted,

William B. Hatton
Chairman

CORPORATE DIRECTORY
AS OF MARCH 31, 1986

William B. Hatton
Chairman of the Board
Tobacco Producer, Morell R. R. #2

Francis A. Gauthier
Vice-Chairman
Fisherman, North Rustico

William M. Jay*
Secretary-Treasurer and
General Manager

MEMBERS OF THE BOARD

Peter MacAulay
Dairy Producer
Souris East

St. Clair Duffy
Potato Producer
Kinkora

Robert H. Minard
Businessman
Ebenezer

Everett MacFarlane
Businessman
Charlottetown

Alan C. MacLeod
Businessman
Charlottetown

W. S. Moore
General Manager
Land Development Corporation

Douglas Johnson
Deputy Minister
Department of Fisheries

H. Lloyd Palmer
Deputy Minister
Department of Agriculture

W. P. MacDougall, C.A.
Deputy Minister
Department of Finance

* Non Voting

CORPORATE PROFILE

PRINCE EDWARD ISLAND LENDING AUTHORITY
(1985-1986)

The Prince Edward Island Lending Authority is empowered to make loans to approved applicants in the following sectors:

AGRICULTURE

- to provide Operating Credit to farmers required to meet annual cropping expenses such as payment for seed, fertilizer, spray materials, fuels, repairs to machinery, labour, etc. This type of credit is repayable in full upon sale of the crop.

- to provide funds for the purchase of livestock as follows:

  for beef cows — loans may be obtained for five years repayable in annual instalments; the first payment being interest only, interest plus principal for the remainder of the term.

  for feeder cattle — the full amount of the loan obtained will be due when the cattle are sold, but in no case longer than a period of eighteen months;

  for dairy cows — loans may be obtained for a period up to five years and be repayable in monthly or annual instalments;

  for breeding ewes — loans may be obtained for a four year period repayable in annual instalments;

  for sows — may be obtained for a three year period repayable in semi-annual or annual instalments;

  for feeder hogs — the full amount of the loan will be due when the hogs are marketed.

- to provide Capital Loans for the purchase of farm lands, for recapitalization of debt, and for farm equipment, storage facilities, erection and/or repairs to barns, land improvements, etc. Maximum term up to 30 years.

FISHERIES

- to provide Operating Credit to assist seasonal preparation costs prior to the start of the fishing season. These advances are repayable during or at the end of the fishing season.

- to provide Capital Loans for the purchase of vessels, engines, and related equipment, etc. Maximum term on new vessels is fifteen years.

TOURISM

- to provide Operating Credit to assist in seasonal preparation costs prior to the start of the tourist season. These advances are repayable in full during or at the end of the tourist season.

- to provide Capital Loans for the establishment of and/or expansion of tourist facilities, or for the acquisition of existing facilities and for consolidation of existing debt. Maximum term up to 30 years.

SMALL BUSINESS

- to provide Capital Loans to Small Business for such purposes as debt consolidation, expansion, refurbishing, purchase of fixed assets, etc. Maximum loan limit $350,000. Loans extended under this sector must be secured by a first real property mortgage, or a first fixed charge debenture. Application fee of $150.00 which is non refundable is applicable.

- for the purpose of this loan program small business is defined as a person, partnership or corporation having not more than 100 employees and annual gross sales of not more than 5 million in the preceeding fiscal year.

- applicants must be based in the Province and in the case of corporations incorporated under the Companies Act of Prince Edward Island.

EXCLUDED

- non resident persons or partnerships, companies not incorporated in the Province, franchised owned operations, licensees, apartment rental operators, manufacturers and processors.

INTEREST RATES

- interest rates on Capital Loans and Operating Credit will be determined from time to time and will be based on the cost of money to the Lending Authority.

REVIEW

PRINCE EDWARD ISLAND LENDING AUTHORITY

(1985-1986)

The Lending Authority, which was established in 1969 as a Crown Corporation and which commenced operation in April, 1970, was designed to assist farmers, fishermen, tourist operators and small business in the province, particularly those operating on the small to medium scale to obtain financing, on reasonable terms and conditions which would not normally be available from other sources.

It is generally agreed that the economic well-being of the province depends, to a large extent, on the continued growth of our primary industries. In assisting primary producers and small business the Lending Authority is fulfilling an important role and is one of the economic vehicles that assist in this much needed and continued growth.

The Lending Authority's activity, inter-alia, includes administration of the loan portfolios of the Lending Agencies of the Government of Prince Edward Island existing prior to April, 1970.

The Authority, now in its seventeenth year of operation, has been accepted both by the persons it was established to assist and by the business community as a whole, and it is evident that it will continue to play an ever increasing role in the future economic development of the province through its lending programs.

GENERAL MANAGER'S REPORT

It is indeed a privilege for me to present this, my seventeenth Annual Report as General Manager. We are pleased to note that the Authority experienced a very busy and productive year with increases in loans and credit in all Divisions except "Small Business" which effectively maintained the same volume as the previous fiscal year.

A complete statistical report on applications received, and the disposition of those applications will be found on Page 9 of this Annual Report.

In general, the Authority received and evaluated 371 applications in all Divisions, for a total value of $31,366,000. This compares to the previous fiscal year when 374 applications were received and evaluated for a total value of $28,943,000.

Despite the current economic difficulties being experienced in the Agricultural industry a total of 104 applications for loans and credit were processed in the amount of $ 7,614,575 compared to 116 applications totalling $ 6,927,879 in the previous fiscal year.

In expanding on my report, we will do so by Divisions as follows:

AGRICULTURAL DIVISION

As noted in my general comments, despite the current difficulties in agriculture, a total of $7,614,575 was approved in loans and credit in this Division, an increase of approximately $700,000. over the previous fiscal year.

The agricultural industry, particularly potato producers, are experiencing very difficult times due to depressed markets caused, amongst other things, by over-supply of product. We experienced two farm failures over the past fiscal year and, we have a number of loans that are seriously in default at the present time and, it is quite conceivable that some of those producers will eventually cease production.

There is no question that the agriculture industry is being plagued with a variety of problems in recent times, but despite these considerations, there is a considerable body of evidence to suggest that agriculture's current ills have been somewhat exaggerated as a result of the character of the industry and the customary over reaction to news of farm insolvencies, sharp movements in agriculture prices and debt levels in the sector. There is also no doubt, however, that agriculture in Canada and elsewhere around the world is undergoing a significant structural change.

The most powerful recent trend in global agriculture is that of simple over-production. The current excess supply of virtually all agricultural commodities, continue to prevail despite droughts and other adverse conditions which have plagued major producing countries over the past few years.

A number of factors have led to the present problems of over-abundance. One major cause is the increased use of modern technology which has dramatically increased yields and sharply reduced the labour intensity of agriculture. Further, agricultural policies pursued in the North American countries in the last decade have served to worsen the trend of over-production, largely through insuring that marginal producers are kept in production through grants, subsidies and tax concessions.

The general economic conditions of the 1970's also contributed to the problems currently facing agriculture. The combination of high levels of inflation, low or sometimes negative real interest rates and reasonably strong commodity prices, encouraged farmers to borrow excessively based on the rapidly appreciating value of their land and high cash flows from rising agricultural prices. At present, all of these conditions are essentially reversed, leaving many farmers overleveraged at a time of declining land values and falling prices of agricultural products.

Consequently, the current position of the agriculture sector is not a result of any one factor but rather of a number of factors all occuring simultaneously. In part, agriculture is suffering from too much of a good thing, rapid-gains in productivity. In the case of commodities, such as potatoes, its real price is about one-half of the price of what it was in the mid 70's and most other basic agricultural outputs have also suffered price declines and stagnation. There is no question that significant changes in the structure and operation of the agricultural industry in Canada and elsewhere, must occur before any lasting long term improvement can take place.

It is general knowledge that there are too many farmers world wide and, that over supply and low farm incomes will prevail until the amount of labour, land and other capital employed in agriculture is substantially reduced to conform with productivity gains. This is unlikely to take place until policies in the major producing nations, including Canada stop supporting marginal operations and promote market forces to play more of a role in determining the amount of resources devoted to agriculture. Recent indications are that such policy shifts are not eminent.

As already mentioned, the Lending Authority has a number of defaulted loans in this sector and as a consequence, some of these producers may effectively go out of production. Regrettably some of these producers do not have viable farm operations or operations that could be made viable by any reasonable farm price, market or income scenario.

The past fiscal year has been a very difficult one for management and staff in this division and in the coming fiscal year we, regrettably, do not foresee any relief from the stress factors affecting this sector.

FISHERIES DIVISION

Our Fisheries Division shows a substantial increase in the amount of loans and credit extended with approximately $3,166,666. being disbursed

to 92 fishermen. This represents an increase of approximately a half million dollars over the previous fiscal year, loans approved include loans for 26 new inshore fishing vessels.

Our fisheries loan portfolio is in excellent standing with no vessels being arrested or losses incurred during the year. In our view, this augers well for the fishing industry and, the fishermen who make up this important sector of our economy.

TOURISM DIVISION

Loans extended in this Division for the year under review, totalled $4,457,650. an increase of approximately $1.1 Million from the previous year. The tourism industry appears vibrant and successful and is expanding in many areas with the Lending Authority being very active in the financing of this expansion.

Two foreclosures were recorded in this Division during the fiscal year however, the balance of the portfolio is in excellent standing with only 4 loans in arrears.

SMALL BUSINESS DIVISION

Twenty-three loan offers were extended in this Division during the fiscal year, for a total of $2,432,250. which is approximately the same amount as was extended in the previous fiscal year. We have several problem loans in this Division with one restaurant/lounge operation being placed into receivership by the Authority during January of this year. This receivership has not been concluded as of the end of the fiscal year. We expect we will experience a loss on this particular loan.

We are pleased to advise that the Authority, despite an ever-growing loan portfolio, was able to maintain its operations within budget during the past fiscal year. It should also be noted that the Authority's loan portfolio now is in excess of $45,000,000. establishing the Authority as one of the largest lenders in the Province. Losses on loans increased during the past fiscal year but, overall loss on all loans and credit extended since the inception of the Authority in 1970, is 1%.

We are also pleased to report that there were no changes in staff personnel during the past fiscal year.

To conclude my report, I am pleased to advise that management and staff of the Authority enjoy excellent rapport with the Chairman and the Members of the Board and, with the Minister Responsible and also with the various departments and agencies, both of the Federal and Provincial Governments and, with the business community at large, with whom it must cooperate.

Respectively Submitted,

William M. Jay
General Manager

STATISTICAL INFORMATION

APRIL 1, 1985 - MARCH 31, 1986

(with comparative figures for fiscal 1984/85)

	1984/85	1985/86
Total number of applications received		
Agriculture	184	171
Fisheries	113	112
Tourism	40	57
Small Business	37	31
	374	371
Total dollar value of applications received		
Agriculture	$15,462,166	$15,381,504
Fisheries	3,787,377	4,412,123
Tourism	6,029,900	8,368,975
Small Business	3,663,545	3,703,400
	$28,942,988	$31,866,002

Disposition of Applications
Loan and Credit Offers Approved:

AGRICULTURE				
Term Loans	61 for	2,348,829	63 for	2,546,290
Operating Credit	55 for	4,579,050	41 for	5,068,285
TOTAL	116	6,927,879	104	7,614,575
FISHERIES				
Term Loans	78 for	1,735,672	85 for	1,462,534
Operating Credit	9 for	894,485	7 for	1,704,132
TOTAL	87	2,630,157	92	3,166,666
TOURISM				
Term Loans	23 for	3,331,050	34 for	4,345,150
Operating Credit	3 for	110,000	3 for	112,500
TOTAL	26	3,441,050	37	4,457,650
SMALL BUSINESS				
Term Loans	26	2,495,845	23 for	2,432,250
TOTAL	26	2,495,845	23 for	2,432,250
TOTAL APPROVED	255	15,494,931	256	17,671,141
Applications withdrawn or declined	119	13,448,057	115	14,194,861
TOTAL	374	28,942,988	371	31,866,002

STATEMENT OF INTEREST EARNED - ALL SECTORS

FOR THE PERIOD APRIL 1, 1985 - MARCH 31, 1986

Agricultural Loans	$2,354,882
Fisheries Loans	409,544
Tourist Loans	1,331,020
Small Business Loans	1,023,862
Working Capital Credit	517,796
	$5,637,104

STATEMENT OF LOAN PORTFOLIOS ASSUMED

FOR THE PERIOD APRIL 1, 1985 - MARCH 31, 1986

Farm Establishment Board	
Balance March 31, 1985	$ 709,390
Payments Received April 1, 1985-March 31, 1986	150,353
Balance March 31, 1986	559,037
Tourist Loan Board	
Balance March 31, 1985	4,052
Payments Received April 1, 1985-March 31, 1986	4,052
Balance March 31, 1986	Ø
Industrial Loan Board and PEI Industrial Corporation	
Balance March 31, 1985	37,633
Payments Received April 1, 1985-March 31, 1986	35,633
Balance March 31, 1986	2,000

SCHEDULE OF LOANS APPROVED

APRIL 15/70 — MARCH 31/86

YEAR ENDING	Agriculture Capital	Fisheries Capital	Tourism Capital	Small Business Capital	Working Capital	TOTAL
March 31/71	13 276,539	67 145,502	31 374,960	2 3,379	*156 1,642,800	269 2,443,180
March 31/72	13 274,700	63 144,099	24 220,548	12 865,500	*131 1,483,228	243 2,988,075
March 31/73	47 669,564	46 185,239	35 901,927	3 51,145	95 1,272,435	226 3,080,310
March 31/74	46 463,854	94 465,092	20 339,560	4 606,639	87 1,591,781	251 3,466,926
March 31/75	107 906,246	107 365,051	21 529,189	12 278,950	245 2,554,176	492 4,633,612
March 31/76	44 510,255	54 340,481	14 375,883	12 226,469	135 3,053,306	259 4,506,394
March 31/77	90 905,663	75 295,978	20 954,247	11 619,107	127 3,782,268	323 6,557,263
March 31/78	107 1,571,843	69 374,230	15 564,145	10 679,030	93 3,046,371	294 6,235,619
March 31/79	124 1,655,196	84 910,515	19 1,119,950	11 830,067	141 4,875,293	379 9,391,021
March 31/80	176 4,128,794	103 1,243,816	27 1,250,735	16 545,690	104 4,873,681	426 12,042,716
March 31/81	170 5,215,462	76 856,635	22 1,701,220	15 900,296	111 6,691,154	394 15,364,767
March 31/82	133 3,831,035	102 1,489,457	17 719,872	11 734,312	71 4,687,811	334 11,462,487
March 31/83	142 5,812,452	128 1,834,025	44 2,366,520	5 203,375	90 7,593,698	409 17,810,070
March 31/84	145 7,688,410	98 1,485,077	47 4,390,855	46 5,956,250	104 7,768,500	440 27,289,092
March 31/85	61 2,348,829	78 1,735,672	23 3,331,050	26 2,495,845	67 5,583,535	255 15,494,931
March 31/86	63	85	34	22	52	256
TOTAL	2,546,290 1481 38,805,132	1,462,534 1329 13,333,403	4,345,150 413 23,485,811	2,412,250 218 17,408,304	6,904,917 1809 67,404,954	17,671,141 5,250 160,437,604

* Guarantee Certificates to Approved Lenders' Program discontinued in 1973.

STATEMENT OF LOAN FLOW

FOR THE PERIOD APRIL 1, 1985-MARCH 31, 1986

AGRICULTURAL CAPITAL LOANS		
Balance March 31, 1985		18,611,092
Payments Received April 1/85-March 31/86	3,598,080	
Interest and Disbursements	4,281,388	
Balance March 31, 1986		19,294,400
FISHERIES CAPITAL LOANS		
Balance March 31, 1985		2,813,943
Payments Received April 1/85-March 31/86	1,135,344	
Interest and Disbursements	1,422,508	
Balance March 31, 1986		3,101,107
TOURIST CAPITAL LOANS		
Balance March 31, 1985		9,369,416
Payments Received April 1/85-March 31/86	2,686,473	
Interest and Disbursements	4,037,751	
Balance March 31, 1986		10,720,694
SMALL BUSINESS LOANS		
Balance March 31, 1985		7,660,986
Payments Received April 1/85-March 31/86	1,683,964	
Interest and Disbursements	2,257,232	
Balance March 31, 1986		8,234,254
WORKING CAPITAL CREDIT - ALL SECTORS		
Balance March 31, 1985		3,173,789
Payments Received April 1/85-March 31/86	6,375,950	
Interest and Disbursements	7,212,910	
Balance March 31, 1986		4,010,749

STATEMENT OF LOANS WRITTEN-OFF AND RECOVERIES

FOR THE PERIOD ENDING MARCH 31, 1986

LOANS WRITTEN-OFF

John A. MacDonald, Souris	$ 39,763
Lyle Farms Ltd., Miscouche	4,346
Gaudette Produce Ltd., Tignish	130,638
Douglas Fraser, Souris	50,000
Craig MacKenzie, Fortune	64,000
John W. Clark, Kensington	40,288
Joseph Duval, Alberton	66,923
	$395,958

RECOVERIES

Byrne Road Community Farms Ltd., Morell	$ 200
Peter Visser, Kinross	65
John A. MacDonald, Souris	677
Daniel MacDonald, Charlottetown	300
	$ 1,242

LOANS CLASSIFIED BY SECTOR AND RANGE

YEAR ENDING MARCH 31, 1986

RANGE	AGRICULTURE	FISHERIES	TOURISM	SMALL BUSINESS	TOTAL
0 - 9,999	26	42	2	-	70
10,000 - 19,999	16	29	1	4	50
20,000 - 29,999	11	6	6	3	26
30,000 - 39,000	7	2	3	1	13
40,000 - 49,999	7	5	-	2	14
50,000 - 59,999	2	1	4	2	9
60,000 - 69,999	3	-	2	-	5
70,000 - 79,999	3	2	2	1	8
80,000 - 89,999	2	-	4	-	6
90,000 - 99,999	9	-	2	2	13
100,000 - 199,999	10	3	4	4	21
200,000 - 299,999	4	-	4	2	10
300,000 - 399,999	1	-	-	2	3
400,000 - 499,999	-	-	2	-	2
500,000 - 599,999	2	-	-	-	2
Over 600,000	1	2	1	-	4
	104	92	37	23	256

COMPARISON OF LOANS APPROVED TO LOANS WRITTEN-OFF

APRIL 15, 1980 — MARCH 31, 1986

Year Ending	Total Loans	Write-Offs	Percent of Total Loans	Recovery
March 31, 1971	2,443,180	—	—	—
March 31, 1972	2,988,075	172,698	5.78	—
March 31, 1973	3,080,310	150,000	4.87	16,928
March 31, 1974	3,466,926	150,425	4.34	18,477
March 31, 1975	4,633,612	56,719	1.22	23,077
March 31, 1976	4,506,394	61,693	1.36	8,801
March 31, 1977	6,557,263	54,125	0.83	38,167
March 31, 1978	6,235,619	50,000	0.08	18,796
March 31, 1979	9,391,021	22,671	0.24	38,048
March 31, 1980	12,042,716	50,000	0.41	13,198
March 31, 1981	15,364,767	18,667	0.12	37,078
March 31, 1982	11,462,487	—	—	2,692
March 31, 1983	17,810,070	14,871	0.08	15,846
March 31, 1984	27,289,092	134,418	0.49	5,363
March 31, 1985	15,494,931	234,593	1.50	22,408
March 31, 1986	17,671,141	395,958	2.24	1,242
TOTALS	160,437,604	1,566,838	1.0	260,121

STAFF OF THE PRINCE EDWARD ISLAND LENDING AUTHORITY

AS OF MARCH 31, 1986

ADMINISTRATION

William M. Jay, M.C.I., C.C.E.	— General Manager
Eric G. Wood	— Administration Officer

AGRICULTURAL DIVISION

Gerald F. Gahan, M.C.I.	— Manager
Brian J. Gallant, B.B.A., M.C.I.	— Loans Officer II
Anne E. Bonnell, B.B.A., M.C.I.	— Loans Officer II
Michael F. Bradley, Ag. Tech.	— Field Officer/Appraisor
J. Kevin Curley, B. Comm., M.C.I.	— Field Officer/Appraisor
Donald C. Aitken	— Field Officer/Appraisor

FISHERIES DIVISION

D. W. (Dan) Smith, M.C.I.	— Manager
J. Kenneth MacDonald, M.C.I.	— Field Officer/Appraisor and Vessel Inspector

TOURISM AND SMALL BUSINESS DIVISION

Eric R. MacNeill, M.C.I.	— Manager
Gerald B. Soy, C.C.E.	— Field Officer/Appraisor

SUPPORT STAFF

Ms. Marlene Peters	— Secretary to the General Manager
Mrs. Eileen Norton	— Accounting Technician I
Mrs. Elizabeth Boswall	— Secretary
Mrs. Eleanor Giraud	— Cashier/Secretary
Mrs. Elva Myers	— Secretary/Receptionist

SUMMERSIDE BRANCH OFFICE

George G. MacCabe, M.C.I.	— Loan Officer II

CONSULTANTS TO MANAGEMENT:

Consulting Engineer	— Mr. Norman F. Stewart P. Eng., Be.(Civil), M.E.I.C.

AUDITORS:

Coopers & Lybrand, Chartered Accountants, Charlottetown, P.E.I.

Coopers
&Lybrand

chartered accountants

PO Box 455
Confederation Court Building
Charlottetown PEI
C1A 7L1

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a member firm of
Coopers & Lybrand (International)

April 21, 1986

AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have examined the balance sheet of the Prince Edward Island Lending Authority as at March 31, 1986 and the statements of liability - Province of Prince Edward Island, interest income and expenses and operating funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Lending Authority as at March 31, 1986 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

PRINCE EDWARD ISLAND LENDING AUTHORITY

BALANCE SHEET AS AT MARCH 31, 1986

ASSETS

	1986 $	1985 $
CURRENT ASSETS		
Cash	804,675	650
Short-term loans plus interest and miscellaneous items (Schedule A) (note 4)	2,752,480	3,094,444
Recoverable expenditures from Department of Finance	460,517	703,639
Properties repossessed and sundry receivable	190,262	438,327
	4,207,934	4,237,060
MORTGAGE LOANS PLUS INTEREST (Schedule B)	41,508,420	39,618,350
	45,716,354	43,855,410

LIABILITIES

CURRENT LIABILITIES		
Bank advances (note 4)	-	2,047,631
Sundry liabilities (note 2)	4,006	309,813
	4,006	2,357,444
LIABILITY TO PROVINCE OF PRINCE EDWARD ISLAND (note 3)	45,712,348	41,497,966
	45,716,354	43,855,410

SIGNED ON BEHALF OF THE BOARD

W. C. Patton
Chairman

Secretary-Treasurer

Coopers &Lybrand

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF LIABILITY - PROVINCE OF PRINCE EDWARD ISLAND

AS AT MARCH 31, 1985

	1986 $	1985 $
BALANCE - BEGINNING OF YEAR	41,497,966	39,381,746
Add: Advances from Province	8,331,946	8,708,948
Interest on advances	5,478,019	4,884,873
Excess of interest income over interest expense	-	50,907
Debts collected that were written off	1,242	22,208
	55,309,173	53,048,682
Deduct: Payments made to Province	7,046,401	11,231,047
Excess of interest expense over interest income	27,591	-
Increase in provision for possible future losses on loans	487,833	319,669
Special provision for future losses on loans (note 5)	2,035,000	-
	9,596,825	11,550,716
BALANCE - END OF YEAR	45,712,348	41,497,966

Coopers &Lybrand

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF INTEREST INCOME AND EXPENSES

FOR THE YEAR ENDED MARCH 31, 1986

	1986 $	1985 $
INTEREST INCOME	5,661,649	5,239,416
INTEREST EXPENSE		
Bank	211,221	303,636
Province of P.E.I.	5,478,019	4,884,873
	5,689,240	5,188,509
EXCESS INTEREST INCOME (EXPENSE) FOR THE YEAR (note 6)	(27,591)	50,907

Coopers
&Lybrand

PRINCE EDWARD ISLAND LENDING AUTHORITY

STATEMENT OF OPERATING FUNDS

FOR THE YEAR ENDED MARCH 31, 1986

	Budget (Note 5) Appropriation 1986 $	Actual 1986 $	Actual 1985 $
OPERATING GRANT - PROVINCE OF PRINCE EDWARD ISLAND	827,200	804,062	778,735
OPERATING EXPENSES			
Salaries and wage levies	599,800	604,113	577,370
Rent - Office and office equipment	102,454	98,551	94,651
- Automobiles	22,440	13,971	19,383
Travel and field call expenses	16,360	13,487	12,687
Telephone	27,802	19,767	18,984
Professional fees	8,800	8,800	8,500
Directors fees and expenses	15,500	14,705	14,600
Office supplies	11,744	11,744	11,000
Insurance	500	498	333
Legal and collection costs	5,400	4,864	3,447
Repairs and maintenance	1,200	1,053	1,150
Furniture and fixtures	1,000	723	4,500
Postage	6,000	5,867	6,000
Advertising	2,800	969	1,088
General expenses	3,400	3,239	3,400
Loan costs	2,000	1,711	1,642
	827,200	804,062	778,735
EXCESS OPERATING GRANT FOR THE YEAR	-	-	-

Coopers

PRINCE EDWARD ISLAND LENDING AUTHORITY

SCHEDULES OF SHORT-TERM LOANS AND MORTGAGE LOANS PLUS INTEREST

AS AT MARCH 31, 1986

	Agriculture $	Fisheries $	Tourist $	Small Business $	Total 1986 $	Total 1985 $
SCHEDULE A - SHORT-TERM LOANS						
Principal balances					4,010,749	3,173,789
Provision for future losses					1,258,269	79,345
					2,752,480	3,094,444
SCHEDULE B - MORTGAGE LOANS						
Mortgage loans assumed by Lending Authority -						
Principal and interest balances	559,037	-	-	2,000	561,037	751,075
Accrued interest	14,868	-	-	94	14,962	18,957
	573,905	-	-	2,094	575,999	770,032
Provision for future losses	14,348	-	-	52	14,400	19,251
	559,557	-	-	2,042	561,599	750,781
Mortgage loans transacted by Lending Authority -						
Principal balances and interest due	19,294,400	3,101,107	10,720,694	8,234,254	41,350,455	38,455,437
Accrued interest	569,773	266,125	638,729	71,145	1,545,772	1,408,736
	19,864,173	3,367,232	11,359,423	8,305,399	42,896,227	39,864,173
Provision for future losses	1,273,604	84,181	283,986	307,635	1,949,406	996,604
	18,590,569	3,283,051	11,075,437	7,997,764	40,946,821	38,867,569
	19,150,126	3,283,051	11,075,437	7,999,806	41,508,420	39,618,350

Coopers &Lybrand

PRINCE EDWARD ISLAND LENDING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1986

1. ACCOUNTING POLICIES

Asset valuation

(i) Loans are stated at cost less a provision for future losses based on the loss experience of prior years and local economic conditions.

The corporation has been using a provision calculated at 2.5% on the year end balances of the loans.

The corporation has a policy to give consideration to possible losses on loans which might arise as a result of changed economic conditions and which might result in losses which would materially differ from those of the past.

(ii) Fixed assets are expensed in the accounts of the Authority at that time they are acquired.

2. SUNDRY LIABILITIES

	1986 $	1985 $
These consist of the following:		
Subsidies received direct from the Government of Canada on behalf of inshore fishermen	4,006	309,813

3. LIABILITY - PROVINCE OF PRINCE EDWARD ISLAND

The liability to the Province is secured by debentures issued by the Authority to the province at varying interest rates and at varying redemption periods. The total of these debentures outstanding at March 31, 1986 are noted below. The remaining balance of the liability is secured by a promissory note reissued monthly.

PRINCE EDWARD ISLAND LENDING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1986

3. LIABILITY - PROVINCE OF PRINCE EDWARD (continued)

%	1986 Debenture Amount	1986 Term Remaining	1985 Debenture Amount	1985 Term Remaining
11.75	9,948,247	3 years	10,271,230	4 years
12.25	7,592,859	4 years	7,797,977	5 years
16.75	6,022,466	16 years	6,101,727	17 years
13.25	5,058,250	10 years	5,297,971	11 years
14.50	3,399,900	2 years	3,505,576	3 years
12.75	3,041,409	9 years	3,218,388	10 years
10.38	815,316	11 years	854,378	12 years
10.25	775,136	13 years	803,333	14 years
10.25	622,295	12 years	648,296	13 years
10.50	618,280	13 years	640,350	14 years
10.00	457,250	12 years	476,689	13 years
11.00	304,655	13 years	315,127	14 years
10.00	256,715	7 years	281,316	8 years
10.25	135,504	8 years	146,155	9 years
10.38	118,336	6 years	143,789	4 years
10.25	112,922	3 years	132,102	12 years
11.00	98,393	13 years	102,733	2 years
10.25	78,329	7 years	101,775	14 years
11.00	71,432	3 years	90,687	4 years
10.50	58,538	3 years	85,759	8 years
10.50	53,928	1 year	74,467	4 years
10.00	48,803	2 years	69,933	3 years
11.00	35,256	8 years	47,586	3 years
10.25	33,247	2 years	37,934	9 years
11.00	26,403	3 years	33,518	4 years
10.50	4,389	8 years	4,729	9 years
10.00	7,306,946	5 years	-	
Total of debentures	47,095,204		41,283,525	
Accounting adjustment for provision for losses on loans, FEB loans not included and other sundry items	(1,382,856)		214,441	
	45,712,348		41,497,966	

The aggregate principal payment made on the debentures on March 31, 1986 was $1,495,267.

PRINCE EDWARD ISLAND LENDING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1986

4. BANK ADVANCES

Bank advances are secured by a demand debenture to the extent of $5,000,000 on all working capital loans of the corporation and a general assignment of book debts.

5. SPECIAL PROVISION FOR FUTURE LOSS

The corporation has decided to record a special provision of $2,035,000 to allow for possible losses which might arise as a result of financial problems encountered by the agriculture sector.

6. EXCESS INTEREST INCOME (EXPENSE)

The excess interest expense for the year was due primarily as a result of a reduction in the interest rate on those agriculture loans which carried a rate in excess of 14% for 5 years, 15% for 10 years, and 15 1/2% for 20 years.

7. BUDGET APPROPRIATION

The budget amounts were not audited.